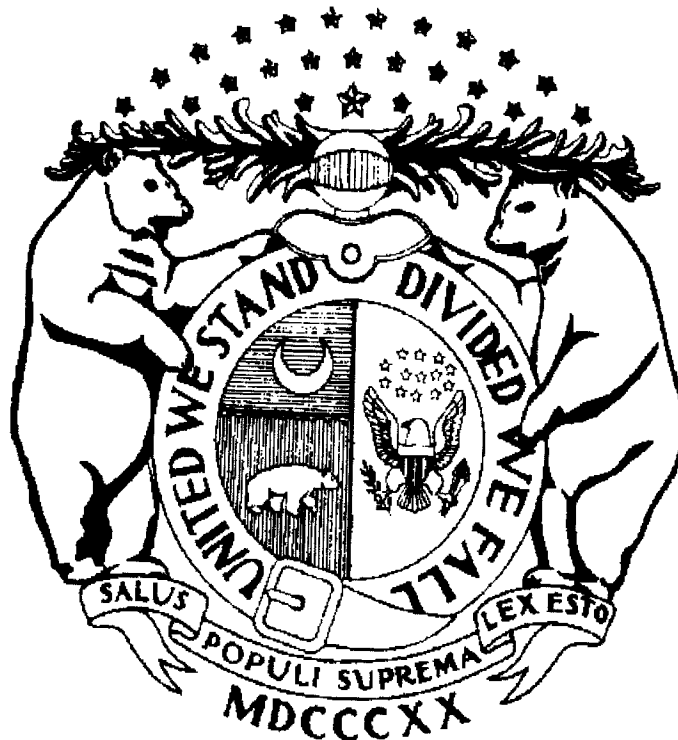


**REPORT OF THE  
ASSOCIATION FINANCIAL EXAMINATION OF  
MISSOURI VALLEY LIFE AND HEALTH  
INSURANCE COMPANY**

**AS OF  
DECEMBER 31, 2004**



**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

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Kansas City, Missouri  
March 3, 2006

Honorable Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman of Financial Condition (EX4) Subcommittee  
Southeastern Zone Secretary

Honorable Jorge Gomez, Commissioner  
Wisconsin Department of Insurance  
Midwestern Zone Secretary

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65102-0690

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

**Missouri Valley Life and Health Insurance Company**

hereinafter referred to as such, as Missouri Valley, or as the Company. Its administrative office is located at 2301 Main Street, Kansas City, Missouri 64108, telephone number (816) 395-3355. This examination began on September 12, 2005, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope association financial examination of Missouri Valley was made as of December 31, 2001, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2002, through December 31, 2004, and was conducted by examiners from the States of Missouri and Kansas representing the Midwestern Zone of the NAIC.

This examination was conducted concurrently with the examinations of the Company's parent, Blue Cross and Blue Shield of Kansas City (BCBS of Kansas City), and an affiliate, Good Health HMO, Inc d/b/a Blue Care, Inc. (Good Health).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners relied upon tests of controls, narrative descriptions, and other information supplied by the Company's independent auditor, Deloitte & Touche, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2004, through December 31, 2004.

### **Comments - Previous Examination**

The comments, recommendations, and notes of the previous financial examination report dated as of December 31, 2001, are listed below with the subsequent response or action taken by the Company in regard to such comments, recommendations, and notes:

#### **Management**

*Comment:* The Board of Directors failed to elect a Chairman of the Board during the examination period, as required by the Bylaws. The Board also elected the same person to the positions of President and Chief Executive Officer, which is not in accordance with the Bylaws. The Company was directed to comply with the Bylaws regarding officer elections

*Company's Response:* The Company agreed to comply with the provisions of its Bylaws with respect to officer elections.

*Current Findings:* The Board of Directors elected a Chairman and a separate individual to serve as President and Chief Executive Officer of the Company.

#### **Intercompany Transactions (Provider Agreement with New Directions)**

*Comment:* The Company was directed to file a Form D with the MDI regarding its transactions with New Directions Behavioral Health, LLC, (New Directions) an affiliate, covering behavioral health and substance abuse services provided to the Company by New Directions.

*Company's Response:* The Company agreed to comply with the recommendation.

*Current Findings:* The Company executed an agreement with New Directions for the provision of behavioral health and substance abuse services.

## HISTORY

### **General**

Missouri Valley Life and Health Insurance Company was incorporated on June 4, 1987, as a life and health insurer, under the insurance laws of Chapter 376, RSMo (Life, Health and Accident Insurance). The Company commenced business on June 1, 1990.

### **Capital Stock**

The Articles of Incorporation authorize the Company to issue 300,000 shares of \$2 par value common stock. As of December 31, 2004, there were 240,000 shares issued and outstanding and 60,000 shares issued and held by the Company as treasury stock. As of December 31, 2004, the total par value of issued common stock was \$600,000 and the total cost of treasury stock was \$500,000. Blue Cross and Blue Shield of Kansas City owns 100% of the issued and outstanding stock.

### **Dividends**

Missouri Valley has not declared any dividends or made any cash dividend distributions since its incorporation.

### **Management**

The management of the Company is vested in a Board of Directors that is elected by the sole shareholder, Blue Cross and Blue Shield of Kansas City. The Company's Bylaws specify that there shall be a minimum of nine (9) directors. The Board of Directors elected and serving, as of December 31, 2004, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
C. Brent Bertram	Kansas City, MO	Associate General Counsel and Secretary, BCBS of Kansas City
George W. Burge	Leawood, KS	Vice President, BCBS of Kansas City
Brian M. Burns	Mission Hills, KS	Vice President, BCBS of Kansas City
Frank J. DiTirro, MD	Kansas City, MO	Senior Vice President and Chief Medical Officer, BCBS of Kansas City
Peter K. Yelorda	Overland Park, KS	Executive Vice President and Chief Administrative Officer, BCBS of Kansas City
Roger L. Foreman	Cameron, MO	Senior Vice President, BCBS of Kansas City
John W. Kennedy	Overland Park, KS	Executive Vice President, BCBS of Kansas City
Bryan F. Miller	Overland Park, KS	Vice President and Chief Actuary, BCBS of Kansas City
Marilyn T. Tromans	Kansas City, MO	Vice President and Chief Financial Officer, BCBS of Kansas City

### **Committees**

The Bylaws allow for the Board of Directors to form any committees it deems necessary. However, no committees existed during the examination period.

### **Officers**

The Board of Directors annually elects various Company officers, as required by the Bylaws. The senior officers elected and serving as of December 31, 2004, were as follows:

John W. Kennedy*	President and Chief Executive Officer
Marilyn T. Tromans	Treasurer
C. Brent Bertram	Secretary
Bryan F. Miller	Actuary

\* David Gentile became Chairman of the Board and Chief Executive Officer and Roger L. Foreman became President, effective May 25, 2005. John W. Kennedy continues to serve on the Board of Directors.

### **Conflict of Interest**

The Company has procedures for the disclosure of any conflicts of interest that may exist. All officers and directors are required to complete a conflict of interest statement every year. Signed

statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

### **Corporate Records**

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. Neither the Articles of Incorporation nor the Bylaws were amended during this period. However, the name of the registered agent of the Company was changed effective January 27, 2003, pursuant to an approval of the Company's request for the change by the Missouri Secretary of State. The new registered agent is C. Brent Bertram who replaced Steven R. Bledsoe.

The minutes of the Board of Director's meetings and the shareholder meetings were reviewed for proper approval of corporate transactions. The minutes, in general, appear to properly reflect and approve the Company's major transactions and events for the period under examination.

### **Acquisitions, Mergers and Major Corporate Events**

None during the examination period.

### **Surplus Debentures**

During the examination period, Missouri Valley had two surplus notes, both payable to its parent, BCBS of Kansas City. Information regarding these surplus notes prior to retirement were as follows:

	<u>Surplus Note #1</u>	<u>Surplus Note #2</u>	<u>Total</u>
Issue Date:	December 30, 1994	June 21, 1995	
Maturity Date:	December 22, 2004	May 9, 2005	
Interest Rate:	3.74%	3.74%	
Principal Amount:	\$5,000,000	\$5,000,000	\$10,000,000
Accrued Interest:	\$2,474,363	\$2,298,083	\$ 4,772,446

On December 17, 2004, the Director of the Missouri Department of Insurance approved the payment of the principal and interest on these surplus notes pursuant to a request for prior approval by the Company. On December 22, 2004, the Board of Directors approved by resolution, the payment of both principal and interest on these surplus debentures in the amount of \$14,772,446, which represented a complete payment and retirement of both surplus notes. Consequently, as of December 31, 2004, the Company had no surplus debentures outstanding.



## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by Missouri Valley's ultimate parent, BCBS of Kansas City, on behalf of itself, Missouri Valley, and its other subsidiaries for each year of the examination period.

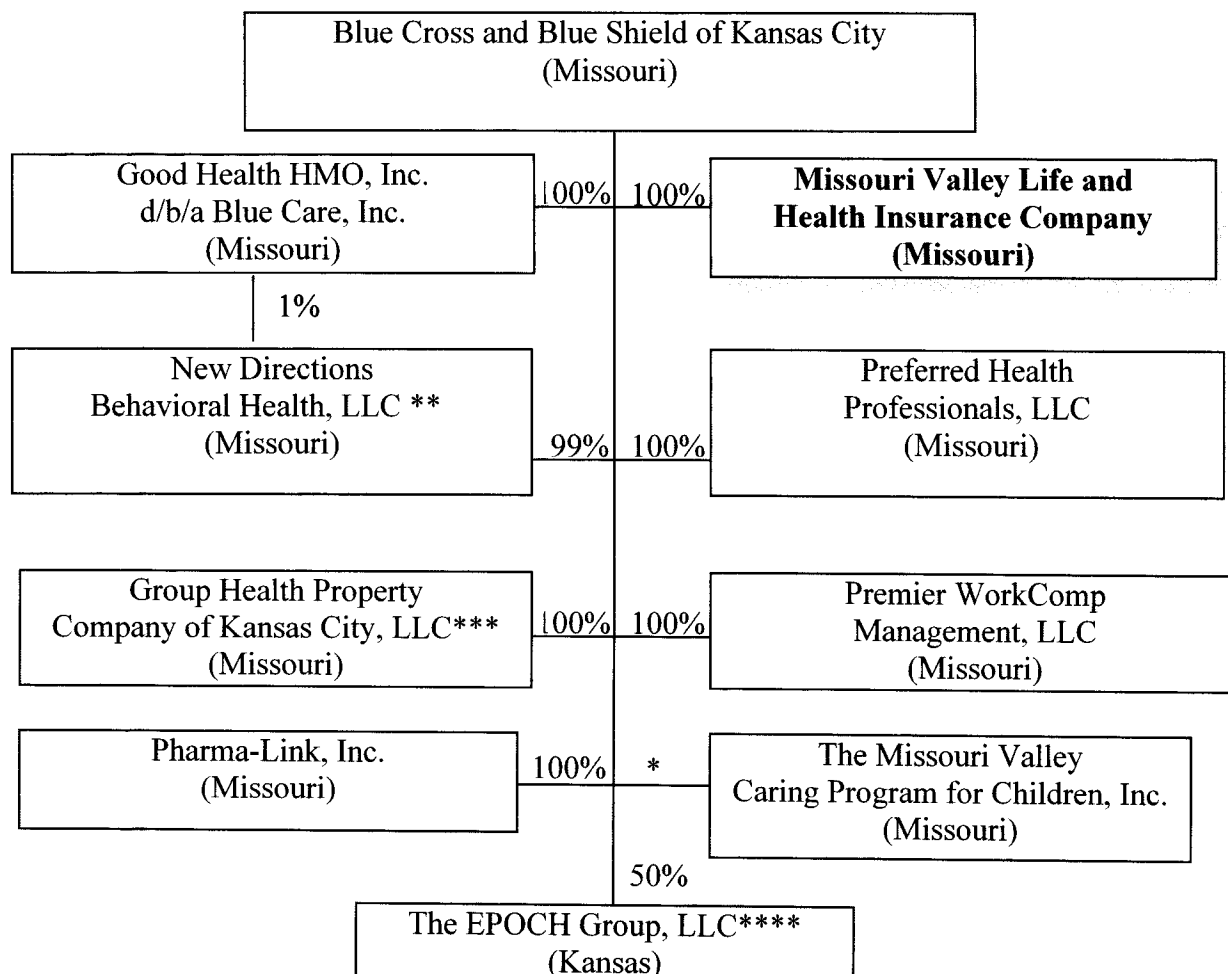
Missouri Valley is owned 100% by BCBS of Kansas City, a not-for-profit, health care insurer that is domiciled in the State of Missouri. BCBS of Kansas City has no stockholders or other ownership. Missouri Valley is ultimately controlled by the Board of Directors of BCBS of Kansas City.

BCBS of Kansas City has several subsidiaries that all have businesses involved in or related to the health care industry. These subsidiaries as of December 31, 2004, are as follows:

- Good Health HMO, Inc. d/b/a Blue Care, Inc. (Good Health) is a Missouri domiciled health insurer.
- The EPOCH Group, LLC (EPOCH) provides administrative services for third-party employers that have self-funded health insurance programs.
- Preferred Health Professionals, LLC (PHP) provides network rental and managed care services to groups, third-party claims administrators and insurance companies.
- Premier WorkComp Management, LLC (Premier WorkComp) provides clients with access to a provider network exclusively for the treatment of work-related injuries and illnesses.
- New Directions Behavioral Health, LLC (New Directions) manages behavioral health benefits and provides employees assistance programs for its customers.
- Pharma-Link, Inc. is a shell company with no operations.
- Group Health Property Company of Kansas City, LLC (Property Company) was created to hold BCBS of Kansas City's headquarters building, located at 2301 Main Street, Kansas City, Missouri.
- The Missouri Valley Caring Program for Children, Inc. is a nonprofit shell company with no operations.

**Organizational Chart**

The following organizational chart depicts Missouri Valley's ownership and holding company system, as of December 31, 2004:



\*The Missouri Valley Caring Program, Inc. is a nonprofit corporation, with ownership belonging to its Board of Directors. However, The Missouri Valley Caring Program, Inc.'s Board of Directors is comprised entirely of BCBS of Kansas City officers. Thus, BCBS of Kansas City has control over this entity.

\*\* Through BCBS of Kansas City's 100% ownership of Good Health HMO, Inc. d/b/a Blue Care, Inc., the Company has 100% ownership of New Directions Behavioral Health, LLC.

\*\*\* As of September 22, 2005, the Group Health Property Company of Kansas City, LLC was dissolved and all its operations were transferred to BCBS of Kansas City.

\*\*\*\* As of November 30, 2005, BCBS of Kansas City transferred ½% of its interest in EPOCH to Good Health. Subsequently on that same date, EPOCH redeemed a 50% interest of itself from a third party. As a result, BCBS of Kansas City owns 99% of EPOCH and Good Health owns the remaining 1%.

Note: As of April 18, 2005, BCBS of Kansas City organized and incorporated a wholly owned subsidiary, Blue Advantage Plus of Kansas City, Inc.

### **Intercompany Transactions**

The Company's intercompany agreements in effect, as of December 31, 2004, are outlined below.

- 1. Type:** Agreement for the Sharing of Federal Income Taxes and Filing of a Consolidated Tax Return

**Affiliates:** BCBS of Kansas City, TriLink HealthCare, Inc., Good Health, PHP, Pharma-Link, Inc.

**Effective:** July 9, 2003

**Terms:** BCBS of Kansas City will file a consolidated federal tax return for itself and its subsidiaries. The tax liability for each subsidiary shall be based upon each subsidiary's taxable income or loss as reflected in the consolidated financial statements. Each subsidiary will pay its federal income taxes to BCBS of Kansas City. BCBS of Kansas City will collect and remit any tax refunds to the subsidiaries.
- 2. Type:** Ancillary Provider Network Agreement

**Affiliates:** BCBS of Kansas City, New Directions, Good Health, TriLink HealthCare, Inc., TriSource HealthCare Inc., BMA Selectcare, Inc., EPOCH, Premier WorkComp, PHP, Healthy Deliveries, LLC

**Effective:** March 1, 2000; amended January 1, 2002, March 1, 2003, January 1, 2004, and January 1, 2005. All amendments were to change capitation rates or extend expiration of capitation rates.

**Terms:** New Directions agrees to manage and/or arrange for the provision of behavioral health and substance abuse services for BCBS of Kansas City's members and the members of BCBS of Kansas City's subsidiaries. New Directions will provide for the credentialing reviews of the providers. BCBS of Kansas City will pay New Directions a capitation payment each month that is determined by the per member per month rates specified in the agreement. The rates vary between products sold by BCBS of Kansas City and its subsidiaries.

- 3. Type:** Administrative Services Agreement
- Affiliate:** BCBS of Kansas City
- Effective:** June 1, 1996
- Terms:** BCBS of Kansas City agrees to provide the following administrative services: accounting, budgeting, personnel, payroll, office space, utilities, maintenance, claims processing, purchasing, legal, actuarial, underwriting, cash management, investment, marketing, data processing, and other services. Missouri Valley will pay BCBS of Kansas City the actual expenses incurred for the services provided. As of January 1, 2005, BCBS of Kansas City assigned the claims processing services for the Company's health PPO product to EPOCH under the Administration Agreement with BCBS of Kansas City and EPOCH.
- 4. Type:** Agreement for the Management of Intercompany Payables and Receivables
- Affiliates:** BCBS of Kansas City, TriLink HealthCare, Inc., Good Health, PHP, Preferred Prescriptions, Inc., Pharma-Link, Inc., BMA SelectCare, Inc., and TriSource Healthcare, Inc.
- Effective:** July 1, 2000; Amended November 1, 2005
- Terms:** BCBS of Kansas City shall pay the payables and collect the receivables for its subsidiaries. Separate accounting records will be maintained for the transactions for each subsidiary. Transfers of funds to or from the subsidiaries will be made to minimize uninvested cash balances and to minimize the receivable or payable balance with each subsidiary. BCBS of Kansas City shall pool and retain the consolidated funds resulting from the transactions. BCBS of Kansas City will invest the pooled funds. BCBS of Kansas City shall pay interest or receive interest each month from the subsidiaries based upon the intercompany balance of each subsidiary. The interest rate shall be the applicable federal rate determined by the most recently published Internal Revenue Service Revenue Ruling. As of January 1, 2005, BCBS of Kansas City assigned the payment and premium receipt services for the Company's health PPO product to EPOCH under the Administration Agreement between BCBS of Kansas City and EPOCH.
- 5. Type:** Guarantor Agreement
- Affiliate:** BCBS of Kansas City
- Effective:** March 1, 1991
- Terms:** BCBS of Kansas City agrees to provide any contributions to the capital and surplus of Missouri Valley necessary to maintain capitalization of \$1,500,000. The purpose of this agreement was to enable Missouri Valley to obtain a Certificate of Authority to do business in the State of Kansas.

**6. Type:** Administration Agreement

**Parties:** BCBS of Kansas City, EPOCH

**Effective:** January 1, 2005

**Term:** EPOCH agrees to provide claim processing, payment and premium billing and collection for Missouri Valley's health PPO product. Missouri Valley is not a party of this agreement. Prior to January 1, 2005, BCBS of Kansas City covered these services under the Administrative Services Agreement and the Agreement for the Management of Intercompany Payables and Receivables.

**Exception:** The Administration Agreement between BCBS of Kansas City and EPOCH on behalf of Missouri Valley overlaps in functionality with the Agreement for the Management of Intercompany Payables and Receivables between BCBS of Kansas City and Missouri Valley. Specific areas of overlap include claims payment and premium billings and collections. Under this arrangement it is reasonable to assume that Missouri Valley could be double-billed for these services covered by two different overlapping agreements. The Company is directed to require BCBS of Kansas City to amend the Agreement for the Management of Intercompany Payables and Receivables and the Administration Agreement to specifically state that EPOCH is collecting premiums and paying claims only for the Company's health PPO product.

The Company also has the following other intercompany transactions:

Missouri Valley has issued a group term life insurance policy to its ultimate parent, BCBS of Kansas City. This policy provides a \$5,000 death benefit for the individual members of BCBS of Kansas City and an affiliate, Good Health. The life insurance premium is \$1.50 per month for each insured life. BCBS of Kansas City and Good Health pay premiums to Missouri Valley for each company's eligible members.

**Intercompany Payments**

The following table summarizes the net amounts earned or incurred during the examination period, between Missouri Valley and its affiliates.

Agreement or Transaction	Affiliate	Earned (Incurred) By Missouri Valley		
		2004	2003	2002
Sharing of Federal Income Taxes	BCBS of Kansas City	\$(288,700)	\$(376,100)	\$(532,900)
Ancillary Provider Network	New Directions	(7,138)	(9,925)	(15,850)
Administrative Services	BCBS of Kansas City	(754,720)	(724,526)	(692,831)
Management of Intercompany Payables and Receivables	BCBS of Kansas City	379	(2,294)	(1,898)
Term Life Insurance Policy with Missouri Valley	BCBS of Kansas City, Good Health	866,438	787,701	709,037
Surplus Note Payments	BCBS of Kansas City	(14,772,446)	N/A	N/A
<b>TOTAL</b>		<b><u>\$(14,956,187)</u></b>	<b><u>\$(325,144)</u></b>	<b><u>\$(534,442)</u></b>

**FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured along with its ultimate parent, BCBS of Kansas City, and other affiliates on a financial institution bond. The bond provides fidelity coverage with a liability limit of \$7,500,000 and a \$75,000 deductible. This coverage complies with the suggested minimum amount of fidelity insurance, according to NAIC guidelines.

The Company is also a named insured on the following insurance policies: property, general liability, commercial umbrella, excess liability, commercial auto, workers compensation, errors and omissions, directors and officers liability, and computer crime coverage.

**PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

Missouri Valley does not have any direct employees. All of the operational and administrative functions of Missouri Valley are performed by the employees of the ultimate parent, BCBS of Kansas City. The Company is allocated a percentage of the benefit costs for BCBS of Kansas City employees, pursuant to an Administrative Service Agreement.

A variety of standard benefits are provided to BCBS of Kansas City employees. These benefits include, but are not limited to, health insurance, dental insurance, disability insurance, life insurance, tuition reimbursement, and a 401(k) savings plan with matching contributions.

## STATUTORY DEPOSITS

### **Deposits with the State of Missouri**

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The Company's required deposit was \$600,000. The funds on deposit, as of December 31, 2004, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$625,000	\$618,815	\$625,739

### **Deposits with Other States**

The Company does not have funds on deposit with any other states.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### **Territory and Plan of Operation**

Missouri Valley is licensed by the Missouri Department of Insurance under Chapter 376 RSMo (Life, Health and Accident Insurance). The Company is also a licensed insurer in the State of Kansas. However, the Company did not have any written premiums in Kansas during the examination period.

The Company was established to write business outside of the service territory of its ultimate parent, BCBS of Kansas City. Missouri Valley's main product is individual and group health insurance. In March 1996, reinsurance contracts were executed to cede most of the Company's health insurance business. Refer to the Reinsurance section of this report for further information.

Missouri Valley has not written any new health business since 1996 and management has stated there are no plans in the future to write new business. Direct written health premiums have declined from \$42,504,863 in 1996 to \$3,097,213 in 2004. As of December 31, 2004, Missouri Valley had less than 1,000 remaining members for its health business.

The Company also provides \$5,000 of term life insurance for its individual members and the individual members of its ultimate parent, BCBS of Kansas City and an affiliate, Good Health. Missouri Valley issued a group policy to BCBS of Kansas City for this business. Direct written life premiums were \$872,649 in 2004. As of December 31, 2004, total insured lives were approximately 50,000.

Since the Company is not selling any new business, third-party agents and brokers are utilized to service renewal business only.

**Policy Forms & Underwriting**  
**Advertising & Sales Materials**  
**Treatment of Policyholders**

The Missouri Department of Insurance has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The MDI conducted a market conduct examination for the period January 1, 2003 through December 31, 2004 with a report that was issued on December 4, 2004. The report resulting from this examination was reviewed and no problems were found that would have a material impact on the Company's financial statements.

**REINSURANCE**

**General**

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Direct Business	\$3,969,862	\$4,172,737	\$4,469,747
Reinsurance Assumed	0	0	0
Reinsurance Ceded:			
Affiliates	0	0	0
Non-affiliates	(8,827)	(2,667,154)	(2,948,409)
<b>Net Premiums Written</b>	<b><u>\$3,961,035</u></b>	<b><u>\$1,505,583</u></b>	<b><u>\$1,521,338</u></b>

**Assumed**

The Company does not assume any business.

**Ceded**

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Missouri Valley has three quota share agreements with Healthy Alliance Life Insurance Company (HALIC), which were all effective March 1, 1996, to cede individual and group health insurance business. One agreement cedes 100% of individual and large group business to HALIC. Another agreement cedes 50% of small group business to HALIC. The third agreement cedes 50% of all business produced by the Farm Bureau agency to HALIC. The agreements do not include any type of ceding commission. Instead, there is Administrative Services Agreement



between Missouri Valley and HALIC. This agreement provides for HALIC to compensate Missouri Valley for providing member services, premium collection, claim payment, and other services associated with the business ceded to HALIC.

All of these reinsurance treaties with HALIC were terminated effective January 1, 2004, for new business and are currently on run-off.

## **ACCOUNTS AND RECORDS**

### **General**

The CPA firm, Deloitte & Touche, LLP, of Kansas City, Missouri, issued audited statutory financial statements of the Company for all years in the examination period.

Policy and claim reserves were reviewed and certified by David O. Thoen, FSA, MAAA, with Deloitte & Touche Consulting LLP, of Minneapolis, Minnesota.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of Missouri Valley for the period ending December 31, 2004. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

## Assets

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$7,499,344		\$7,499,344
Cash and Short-term Investments	2,385,397		2,385,397
Investment Income Due and Accrued	73,221		73,221
Uncollected Premiums and Agents' Balances	2,879	\$103	2,776
Amounts Recoverable from Reinsurers	26,012		26,012
Other Amounts Receivable under Reinsurance	41		41
Receivable from Parent and Affiliates	14,307		14,307
Health Care Receivable	<u>3,280</u>	<u>3,280</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b><u>\$10,004,481</u></b>	<b><u>\$3,383</u></b>	<b><u>\$10,001,098</u></b>

## Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	\$6,410
Aggregate Reserve for Accident and Health Contracts	320,626
Contract Claims – Life	90,699
Contract Claims – Accident and Health	530,940
Premiums and Annuity Considerations Received in Advance	52,446
Other Amounts Payable on Reinsurance	204
Interest Maintenance Reserve	314,518
Commissions to Agents Due or Accrued	20,913
General Expenses Due or Accrued	105,058
Taxes, Licenses and Fees Due or Accrued	5,700
Asset Valuation Reserve	48,787
Aggregate Write-Ins for Liabilities:	
Uncashed Checks Pending Escheatment	<u>831</u>
<b>TOTAL LIABILITIES</b>	<b>\$1,497,132</b>
Common Capital Stock	600,000
Gross Paid In and Contributed Surplus	5,226,100
Unassigned Funds (Surplus)	3,177,866
Less Treasury Stock	<u>(500,000)</u>
Capital and Surplus	<b><u>\$8,503,966</u></b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b><u>\$10,001,098</u></b>

## Summary of Operations

Premiums for Life and Accident and Health Contracts	\$3,978,689
Net Investment Income	784,993
Amortization of Interest Maintenance Reserve	102,343
Commission and Expense Allowances on Reinsurance Ceded	<u>1,079</u>
<b>TOTAL</b>	<b>\$4,867,104</b>
Death Benefits	247,697
Disability Benefits and Benefits under Accident and Health Contracts	2,514,781
Increase in Aggregate Reserves for Life, A&H Contracts	18,657
Commissions on Premiums	266,335
General Insurance Expenses	653,570
Insurance Taxes, Licenses and Fees	<u>100,772</u>
<b>TOTAL</b>	<b><u>\$3,801,812</u></b>
<b>NET GAIN FROM OPERATIONS</b>	<b>\$1,065,292</b>
Federal Income Taxes Incurred	<u>(222,603)</u>
<b>NET INCOME</b>	<b><u>\$842,689</u></b>
<b>CAPITAL AND SURPLUS:</b>	
Capital and Surplus, December 31, 2003	\$22,427,585
Net Income	842,689
Change in Non-Admitted Assets	(2,893)
Change in Asset Valuation Reserve	9,031
Change in Surplus Notes	(14,548,011)
Aggregate Write-in for Gains and Losses in Surplus:	
Accrued Interest on Surplus Notes	<u>(224,435)</u>
<b>Net Change in Capital and Surplus for the Year</b>	<b><u>(\$13,923,619)</u></b>
<b>CAPITAL AND SURPLUS, DECEMBER 31, 2004</b>	<b><u>\$8,503,966</u></b>

## **Notes to the Financial Statements**

None.

## **Examination Changes**

None.

## **General Comments and/or Recommendations**

### **Intercompany Transactions (page 10)**

The Administration Agreement between BCBS of Kansas City and EPOCH on behalf of Missouri Valley overlaps in functionality with the Agreement for the Management of Intercompany Payables and Receivables between BCBS of Kansas City and Missouri Valley. Specific areas of overlap include claims payment and premium billings and collections. Under this arrangement it is reasonable to assume that Missouri Valley could be double-billed for these services covered by two different overlapping agreements. The Company is directed to require BCBS of Kansas City to amend the Agreement for the Management of Intercompany Payables and Receivables and the Administration Agreement to specifically state that EPOCH is collecting premiums and paying claims only for the Company's health PPO product.

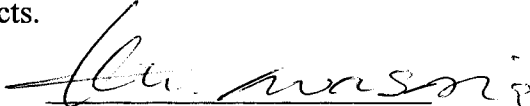
### ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Valley Life and Health Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Bernie Troop, CFE, Alvin Garon, CFE, Leslie Nehring, CFE, and Andy Balas, CFE, AES, examiners for the Missouri Department of Insurance, participated in this examination. In addition, Bertram Oparaji, CFE, representing the Kansas Department of Insurance also participated in the examination. The firm of Milliman, Inc., of St. Louis, Missouri also participated as a consulting actuary.

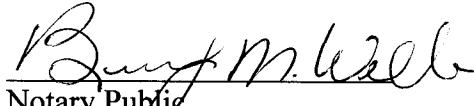
### VERIFICATION

State of Missouri                 )  
  )  
County of                                 )

I, Levi N. Nwasoria, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Missouri Valley Life and Health Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
Levi N. Nwasoria, CPA, CFE  
Examiner-In-Charge  
Missouri Department of Insurance

Sworn to and subscribed before me this 7<sup>th</sup> day of April, 2006.

My commission expires: 03/17/2008        
Notary Public

**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read 'Frederick G. Heese', written over a horizontal line.

Frederick G. Heese, CFE, CPA  
Audit Manager  
Missouri Department of Insurance



# BlueCross BlueShield of Kansas City

An Independent Licensee of the  
Blue Cross and Blue Shield Association

One Pershing Square  
2301 Main  
P.O. Box 419169  
Kansas City, MO 64141-6169  
Telephone: 816-395-2222  
[www.bcbskc.com](http://www.bcbskc.com)

June 9, 2006

RECEIVED  
MO INS DEPT  
JUN 09 2006

Mr. Kirk Schmidt  
Missouri Department of Insurance  
PO Box 690  
Jefferson City, MO 65102-0690

RE: Response to Exam: Blue Cross Blue Shield of Kansas City, Missouri Valley Life  
and Health Insurance Company and Good Health HMO, Inc. d/b/a Blue-Care

Dear Mr. Schmidt:

This letter is in response to your letter of May, 11, 2006 requesting written verification of compliance with the comments and recommendations from the financial examination for the above companies as of December 31, 2004. We request that our responses be included in the report as a public document.

Attached are responses to issues raised for each company separately. If after reading these responses you have additional questions, you can reach me at 816-395-2750, or by e-mail at [marilyn.tromans@bcbskc.com](mailto:marilyn.tromans@bcbskc.com).

Sincerely,

Marilyn Tromans  
Vice President, CFO

MT:lp

Attachments



**RESPONSES TO GENERAL COMMENTS AND/OR RECOMMENDATIONS –**  
**FINANCIAL EXAMINATIONS OF MISSOURI VALLEY LIFE AND HEALTH**  
**INSURANCE COMPANY**

1. Intercompany Transactions (page 10) - The Company will amend the Agreement for Intercompany Payables and Receivables to explicitly state that the services provided by the Company to MVLH do not include the receipt of premiums and payment of claims for the MVLH direct pay PPO product.